

Message Text

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ACTION SS-25

INFO OCT-01 ADP-00 SSO-00 NSCE-00 /026 W

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O 130930Z AUG 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC NIACT IMMEDIATE 4638

S E C R E T SECTION 1 OF 2 JIDDA 3444

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJ: SAUDI GOVERNMENT CONSIDERATION OF CEILING ON
OIL PRODUCTION

REF: (A) JIDDA 2950; (B) STATE 157536

SUMMARY: YAMANI WELCOMED RECEIVING TEXT (REFTEL) OF US POSITION PAPER ON ARAB INVESTMENTS, NOTING SUPREME PETROLEUM COUNCIL (SPC) UNDER IMPRESSION US FAVORS SOME ASSERTION OF INTERNATIONAL TUTHORITY OVER OIL-PRODUCING GOVERNMENTS' INVESTMENT POLICIES. SO GREAT WAS CONCIL'S CONCERN IT HAD CONCLUDED THAT IF ANY SUCH ACTION TAKEN IT WOULD AT ONCE PUT CEILING ON OIL PRODUCTION. AMB SAID HE PLANNED ALSO GIVE PAPER TO PRINCE FAHD, IDEA WHICH YAMANI THROUGHLY APPROVED. HE DESCRIBED DELIBERATIONS CURRENTLY UNDERWAY IN SPC REGARDING POSSIBLE LIMITATIONS ON RATE OF OIL PRODUCTION INCREASE. YAMANI HIMSELF IS OPPISING SUCH MEASURES, BUT TREND OF CONCIL THINKING FAVORS THEM. PRINCE FAHD STILL RELATIVELY OPEN-MINDED AND YAMANI BELIEVES US EXPLANATION PROVIDED FAHD RE TRUE IMPORTANCE TO CONSUMING COUNTRIES OF LIMITATIONS ON PRODUCTION COULD HELP CHANGE TREND OF SPC THINKING. PROBLEM IN SAUDI EYES PRINCIPALLY ECONOMIC, THOUGH THERE ARE POLITICAL OVERTONES. ARAMCO'S PELL-MELL PRODUCTION POLICY REGARDED WITH MISGIVING BY YAMANI. HOWEVER, HE DOES NOT SEE ANY SPC DESICION ON PRODUCTION LEVELS FOR SEVERAL WEEKS. ACTION SUGGESTED: BELIEVE WE SHOULD PRESENT
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CAREFULLY FORMULATED POSITION TO FAHD IN VERY NEAR FUTURE,

STRESSING VITAL IMPORTANCE DEVELOPING LONG-RANGE PRODUCTION POLICY WHICH WILL BOTH MEET SAUDI REQUIREMENTS AND YET GIVE FULL WEIGHT TO GROWING NEEDS OF CONSUMING COUNTRIES AS WELL. END SUMMARY.

1. DURING CALL ON YAMANI AUGUST 12 I PRESENTED TEXT OF US PAPER REGARDING INVESTMENTS OF OIL-PRODUCING GOVERNMENTS WHICH HAS BEEN PLACED BEFORE COMMITTEE OF TWENTY (REFTEL B). REMARKED THERE HAD BEEN GOOD DEAL OF MIS-UNDERSTANDING ON ARAB SIDE REGARDING OUR IDEAS ON HOW LARGE ACCUMULATING RESERVES OF OIL-PRODUCING GOVERNMENTS SHOULD BE TREATED UNDER TERMS OF ANY NEW INTERNATIONAL MONETARY AGREEMENTS. YAMANI WOULD SEE FROM PAPER THAT WE INDEED RECOGNIZED COUNTRIES SUCH AS SAUDI ARABIA HAD VERY SPECIAL PROBLEM. PAPER MADE CLEAR ALSO USG CONVICTION THAT CONTROL OF "INVESTMENT" RESERVE WAS SOMETHING WHOLLY WITHIN DISCRETION OF OWNING GOVERNMENT.

2. YAMANI SAID DELIVERY OF PAPER WAS MOST TIMELY, SINCE SUBJECT HAD BEEN CONSIDERABLY DISCUSSED RECENTLY IN SAUDI GOVERNMENT'S SUPREME PETROLEUM COUNCIL (SPC). CONCIL MEMBERS HAD COME TO BELIEVE THAT US DID FAVOR PROCEDURES WHICH WOULD ASSERT INTERNATIONAL AUTHORITY OVER OIL-PRODUCING GOVERNMENTS' INVESTMENT POLICIES. TENTATIVE CONCLUSION OF CONCIL WAS THAT IF THERE SHOULD BE SOME EFFORT BY INTERNATIONAL REGULATORY BODY TO EXERCISE CONTROL OVER INVESTMENT OF SAUDI RESERVES, SAG WOULD RESPOND BY AT ONCE PUTTING CEILING ON PRODUCTION OF OIL.

3. TOLD YAMANI I FOUND IT RATHER STARTLING THAT SUCH DRASTIC ACTION SHOULD BE UNDERCONSIDERATION WHEN IT WAS APPARENT THERE LARGE LACUNA IN SAG UNDERSTANDING OF WHAT USG INTENDING TO DO. IT WAS IMPORTANT WE STAY IN CLOSE TOUCH ON THIS MATTER. ACCORDINGLY, I PLANNED PRESENT PAPER TO OTHER MEMBERS OF SPC SO THAT THEY TOO WOULD HAVE CLEAR NOTION OF US APPROACH TO ISSUE. PAPER WAS BEING TRANSLATED AND I THOUGHT I SHOULD NEXT GIVE IT TO PRINCE FAHD.

4. YAMANI THROUGHLY APPROVED OF THIS IDEA. IN RECENT
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WEEKS, HE SAID, THERE HAS BEEN GOOD DEAL OF DISCUSSION IN SPC ON OIL PRODUCTION POLICY. WEIGHT OF OPINION WITHIN GROUP FAVORS LIMITATION OF SOME TYPE. VARIOUS APPROACHES HAVE BEEN MENTIONED: ONE PROPOSES SETTING SOME KIND OF DAILY AVERAGE FOR ENTIRE YEAR 1973--SAY BETWEEN 7.5-7.9 MILLION BARRELS. YET PRODUCTION CURRENTLY WAS RUNNING WELL OVER 8.5 MBD, AND TO REACH AN AVERAGE RPT AVERAGE FOR ENTIRE YEAR AT LEVEL MENTIONED WOULD REQUIRE A CUT-

BACK IN PRODUCTION BETWEEN NOW AND END OF 1973. POSSIBLE
CEILING OF FIVER PERCENT PER ANNUM INCREASE IN PRODUCTION
HAS BEEN MENTIONED. POSSIBILITY OF A CEILING AT TEN
PERCENT LEVEL HAS ALSO BEEN DISCUSSED BUT LESS FREQUENTLY.

5. YAMANI ASSURED ME FIRMLY THAT HE HIMSELF WAS STRONGLY
OPPOSING SUCH MEASURES SINCE HE UNDERSTOOD VERY WELL THAT
THEIR IMPOSITION WOULD SEND OIL PRICES SKYROCKETING AND
THAT "REAL SUFFERING" COULD RESULT IN EUROPEAN COUNTRIES
NEXT WINTER. HE CHARACTERIZED HIMSELF AS RATHER A LONE
VOICE IN CONCIL. SAQQAF, HE REMARKED, IS "QUITE IMPOSSIBLE."
VICE MINISTER OF FINANCE ABU KHAYL FAVORS LIMITATIONS ON
MISTAKEN ASSUMPTION THAT CONSUMERS CAN GET OIL FROM OTHER
COUNTRIES WHO NEED SHARPLY MOUNTING REVENUE WHICH SAUDI
ARABIA DOES NOT. YAMANI SAID HE HAD BEEN TRYING TO CON-
VINCE ABU KHAYL THAT NIGERIA DID NOT HAVE SIGNIFICANT
RESERVE PRODUCTION CAPACITY. SAMA GOVERNOR ANWAR ALI
SEEMED TO BE GOING ALONG WITH IDEA OF SOME PRODUCTION
LIMITATIONS.

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6. PRINCE FAHD, YAMANI BELIEVES, TENDS TO BE SWAYED BY
PRO-LIMITATION ADVOCATES BUT IS OPEN-MINDED. HE CONTINUES
TO HAVE GENUINELY CORDIAL OUTLOOK TOWARDS US. A FRIENDLY
US VOICE INJECTED AT THIS POINT, EXPLAINING SIGNIFICANCE
OF LIMITATIONS ON PRODUCTION, COULD BE DISTINCTLY HELP-
FUL, YAMANI FELT, IN SLOWING TREND OF SPC THOUGHT TOWARD
POLICIES OF LIMITATION ON RATE OF INCREASE.

7. WHEN I ASKED IF GROUNDS FOR SUPREME PETROLEUM COUNCIL'S

CONCERNS ARE PRINCIPALLY ECONOMIC, YAMANI REPLIED, "DEFINITELY--THEY ARE WORRIED ABOUT INCREASE IN RESERVE FUNDS WHICH REMAIN IN BANK AND DETERIORATE IN VALUE," BUT HE ADDED THAT THERE ARE POLITICAL OVERTONES TO THEIR ATTITUDE ALSO. (OBVIOUSLY THIS IS CASE AS FAR AS SAQQAF'S VIEWS ARE CONCERNED.) YAMANI DECLARED THAT HE HAD DISCUSSED WITH ARAMCO REPS THE THINKING OF SPC WITH REGARD LIMITATIONS ON INCREASE IN PRODUCTION.

8. YAMANI BELIEVES THAT A DISTINCTLY COMPLICATING FACTOR IS ARAMCO'S PRESENT PELL-MELL PRODUCTION POLICY. HE IS CONCERNED THAT COMPANY MAY BE EXHAUSTING PETROLEUM RESERVES INEFFICIENTLY FOR ITS OWN PURELY COMMERCIAL PURPOSES. HE HAS BEEN MAKING THESE POINTS VIGOROUSLY TO ARAMCO REPS AND IS HAVING SOME STUDIES MADE TO CLARIFY IN HIS OWN MIND SOUNDNESS OF COMPANY'S PRESENT OIL RESERVES CONVERSATION PRACTICES.

9. ASKED YAMANI HOW LONG HE THOUGHT CONCIL MIGHT CON-
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TINUE TO DELIBERATE THIS ISSUED BEFORE MAKING ANY DECISION. PARTLY TO MAKE HIS COLLEAGUES BETTER INFORMED AND PARTLY ALSO AS A DELAYING TACTIC, YAMANI IS HAVING "SOME MORE STUDIES MADE." HE HIMSELF WILL BE ABSENT IN SAN FRANCISCO IN MID-SEPTEMBER FOR SEMINARS SET UP BY STANFORD RESEARCH; INSTITUTE, AND HE FELT CERTAIN NO DECISION WOULD BE MADE IN HIS ABSENCE. HOWEVERN, HE THOUGHT IT DESIRABLE AN APPROACH BE MADE TO FAHD PROMPTLY SO THAT PRINCE WOULD BEGIN TO UNDERSTAND MORE CLEARLY THAN HE NOW DOES SINGIFICANCE OF ANY DIMINUTION OR SHARP LEVELING OFF IN RATE OF INCREASE SAUDI PRODUCTION.

10. COMMENT AND ACTION SUGGESTED: IT WOULD SEEM DESIRABLE SEE FAHD IN NEAR FUTURE TO PRESENT TEXT OF OUR POSITION ON RESERVE INVESTMENTS BY ARAB COUNTRIES. IN ADDITION, BELIEVE WE SHOULD COMMENCE ENDEAVOR GET FAHD COMPREHEND CLEARLY AND AS SOON AS POSSIBLE SERIOUS IMPORT OF RESTRICTIONS ON SAUDI PRODUCTION. VIGOROUS US SUPPORT OF LEBANESE MOVES CONDEMN ISRAEL FOR AIR PIRACY IN UNSC COULD HELP CONSIDERABLY IN ESTABLISHING FAVORABLE ATMOSPHERE FOR PRESENTATION OF OUR POSITION TO PRINCE FAHD IN NEXT FEW DAYS.

11. CLEARLY OUR RATIONALE SHOULD BE MOST CAREFULLY FORMULATED. CAN WE SEEM TO OPPOSE ENTIRELY SLOWDOWN IN RATE OF PRODUCTION INCREASE WHEN SAUDIS CLEARLY CONCERNED THAT COMPANY'S PRESENT APPROACH MAY BE QUESTIONABLE IN TERMS OF CONSERVATION POLICIES, AND WHEN IN FACT SAUDIS ALSO HAVE JUSTIFIABLE WORRY WITH REGARD TO MOUNTING FINANCIAL RESERVES IN A FICKLE INTERNATIONAL MONETARY WORLD?

RATIONALE PRESENTED TO FAHD MIGHT INCLUDE FOLLOWING POINTS:

12. WITH UTILIZATION OF JUST A FEW KEY PRODUCTION AND CONSUMPTION FIGURES FAHD SHOULD BE MADE TO UNDERSTAND VERY SERIOUS EFFECT ON CONSUMERS OF ANY DRASTIC CURTAILMENT IN RATE OF PETROLEUM INCREASE. POINT SHOULD BE MADE ALSO PRESUMABLY THAT IMPACT WOULD BE SEVEREST ON EUROPE, JAPAN. (ASSUME THESE POINTS WOULD HVE TO BE PRESENTED WITHOUT PROVIDING ENDORSEMENT FOR ANY SPECIFIC RATE OF INCREASE.)

13. FAHD SHOULD BE ASSURED WE UNDERSTAND FULLY COMPLEXITIES OF DECISION-MAKING AS REGARD INVESTMENT POLICY, BOTH AT
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HOME AND ABROAD, WHICH SAUDI ARABIA FACES IN UTILIZATION ITS MOUNTING RESERVES. NVERTHELESS, WITH LARGE NEW PROJECTED BUDGETARY EXPENDITURES AND FACT THAT RESERVES HAVE NOT YET APPROACHED UNMANAGEABLE PROPORTIONS PROBLEM MAY NOT BE SO CRUCILALLY URGENT THAT QUESTIONS REGARDING LEVELS OF PRODUCTION CANNOT BE APPROACHED IN MEASURED FASHION, CAREFUL CONSIDERATION IS NEEDED FOR EVOLUTION OF POLICY. WHICH WILL BOTH MEET SAUDI REQUIREMENTS AND YET GIVE FULL WEIGHT TO NEEDS OF CONSUMING COUNTRIES AS WELL.

14. USG DEEPLY INTERESTED IN WHAT IT CAN DO TO ASSIST ASUDI ARABIA WITH ITS INDUSTRIAL DEVELOPMENT AND IS PREPARED VIGOROUSLY ENCOURAGE US ENTERPRISE UNDERTAKE SOUND PROJECTS UTILIZING CHEAP ENERGY, ETC., IN SAUDI ARABIA. (YAMANI NOTED HE THOUGHT THIS WOULD BE PARTICULARLY EFFECTIVE ARGUMENT TO USE WITH FAHD.)

15. IN GENERAL, TO BE MOST USEFUL WITH PRINCE RATIONALE SHOULD DEPEND ON FOUR OR FIVE SIMPLY STATED POINTS OF NATURE SUCH THAT FOLLOWING THEIR PRESENTATION PIECE OF KPAPER COULD BE HANDED HIM CONTAINING POINTS MADE ORALLY.

16. REALIZE DEPARTMENT WILL WISH CONSIDER CAREFULLY BOTH SUBSTANCE AND MODE OF PRESENTATION AND THAT IME IS NECESSARY FOR THIS PROCESS. BELIEVE, HOWEVER, WISEST THING IS TO PROCEED AS PROMPTLY AS WE CAN TOWARD FORMULATION OF WELL-REASONED STATEMENT OUR VIEWS.

17. PRINCE FAHD'S ASSISTANT TELLS US HE EXPECTS HRH BE IN JIDDA "NEXT WEEKEND," WHICH PROBABLY MEANS LATE THURSDAY AFTERNOON, ALL DAY FIRDAY, AND PERHAPS A GOOD PART OF SATURDAY. IT WOULD SEEM GOOD IDEA FOR US TO HAVE OUR THOUGHTS READY FOR PRESENTATION TO FAHD BY THAT TIME.
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